

Insurance Agent/Broker M&A – Quick Thoughts (October 2016)

According to SNL Financial, 100 agent / broker deals were announced in Q3 2016, a decrease of 9% compared to the 110 deals announced in Q3 2015. While deal volume this year continues to be down slightly vs. last year, pricing remains strong. Examining this past quarter's most active acquirers, HUB International and AssuredPartners each announced 9 deals, and Arthur J. Gallagher rounded out the top 3 with 5 announced deals. For those who follow the quarterly analyst calls of the publicly-traded brokers, it's not news that Pat Gallagher (Chairman and CEO of Arthur J. Gallagher) has been fairly outspoken recently regarding the high multiples some buyers are paying for insurance agencies. Despite Pat's sentiments, Arthur J. Gallagher had announced 20 deals this year through September and continues to be one of the most active buyers that we follow.

Some other active buyers this quarter included Confie Seguros (3 deals), as well as Hilb Group, USI and World Insurance Associates (2 deals each). Moving forward, we will continue to keep an eye on World Insurance Associates' acquisition activity as the NJ-based agency recently announced a new acquisition financing facility provided by Macquarie CAF Lending.

Looking at a few of the more interesting deals this quarter, in August, ABRY Partners, a Boston, MA-based private equity firm, announced a controlling investment in NSM Insurance Group. The investment by ABRY marks a somewhat rare feat in the private equity world as ABRY first invested in NSM in 2011, sold its stake to AIG in 2015, and is now investing again in a controlling position in 2016. NSM is a specialty MGA focused on niche programs such as social services, collector cars, workers compensation, aviation, sports and fitness, microbreweries, and professional liability for lawyers, dentists, architects and engineers. NSM writes over \$500 million in annual premiums. NSM is ABRY's third active investment in the insurance distribution space as ABRY also owns Confie Seguros and Hilb Group, both retail agents.

Kohlberg & Company, a middle market private equity firm based in Mount Kisco, NY, announced a "significant" equity investment in US Risk Insurance Group in July. US Risk, based in Dallas, TX, is an MGA / wholesale brokerage. According to the press release issued by US Risk, the partnership with Kohlberg will give US Risk access to substantial capital intended to accelerate the company's growth. Randall Goss, US Risk's founder, Chairman and CEO, will continue to lead US Risk and will also remain the company's largest individual stockholder. Taking a step back, while a few years ago much of the chatter in the insurance distribution space was surrounding private equity's interest in the retail segment of the market, as of late, several prominent private equity firms have made bets on the MGA / wholesale space. It will be interesting to watch this strategy unfold in the coming years.

In July, Alliant Insurance Services announced its acquisition of Mesirow Insurance Services ("MIS"). MIS, headquartered in Chicago, IL, was a division of Mesirow Financial, a diversified financial services firm. MIS is a full-service insurance brokerage and consultant offering property and casualty, employee benefits, life and disability products to its customers. MIS employs approximately 350 people and generated nearly \$70 million in P&C revenue in 2015 (according to Insurance Journal). For Alliant, the MIS deal strengthens its presence in the Midwest middle market. MIS's current executive team will continue to lead the company.

Looking ahead to our Q4 "Quick Thoughts" piece, we will be discussing Acrisure's management-led buyout which was announced last week.

If you would like to have a highly confidential conversation about the current buying / selling market for insurance agents / brokers, please contact me and I would be happy to call or meet with you in-person.

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